

Message Text

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C O N F I D E N T I A L STATE 102915 TOSEC 040044

PASS TONY SOLOMAN

FOLLOWING REPEAT ANKARA SENT ACTION SECSTATE, INFO ADANA,
ATHENS, ISTANBUL, IZMIR, NICOSIA 4 MAY 77.

QUOTE: C O N F I D E N T I A L ANKARA 3385

E.O. 11652: GDS

TAGS: EFIN, EAGR, PFOR, TU

SUBJECT: CENTRAL BANK GOVERNOR WONDERS IF USG IS DISCOURAGING
COMMERCIAL BANK LENDING TO TURKEY

REF: (A) ANKARA 3329 (NOTAL, (B) ANKARA 3188 (NOTAL),
(C) ANKARA 1643 (NOTAL)

SUMMARY. CENTRAL BANK GOVERNOR SADIKLAR, IN MEETING WITH
E/C COUNSELOR MAY 3, OFFERED PERSONAL VIEW THAT RECENT
WITHDRAWAL BY TWO LARGE AMERICAN BANKS OF \$200 MILLION
CREDIT, EQUAL TO CENTRAL BANK OVERDRAFT THROUGHOUT WORLD,
MIGHT BE RESULT OF USG "ECONOMIC EMBARGO", PARALLELING
MILITARY EMBARGO ALREADY IN EFFECT. GOVERNOR SAID THAT
CENTRAL BANK PAYMENTS CRISIS BEFORE JUNE 5 GENERAL ELECTIONS
COULD BE ATTRIBUTED BY PRIME MINISTER DEMIREL'S JUSTICE PARTY
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TO US. HINTING AT USEFULNESS OF FINANCIAL ASSISTANCE TO REMOVE
DOUBTS ABOUT US POLICIES, SADIKLAR ACKNOWLEDGED THAT CENTRAL
BANK IS IN DEEP DIFFICULTY BETWEEN NOW AND TIME WHEN NEW GOVERN-
MENT IS FORMED, CAPABLE OF TAKING ECONOMIC MEASURES NECESSARY
TO BRING IN IMF AND OTHER CREDITS. END SUMMARY.

1. ON MAY 3 E/C COUNSELOR MET, AT HER REQUEST, WITH CENTRAL

BANK GOVERNOR TAYYAR SADIKLAR TO REVIEW TURKISH FOREIGN EXCHANGE SITUATION AFTER RETURN OF TURKISH DELEGATION FROM WASHINGTON AND IMF INTERIM COMMITTEE MEETING. PRESENT AT MEETING WAS ISMAIL SENGUN, DEPUTY CHIEF ADVISER IN BANK'S ECONOMIC RESEARCH DEPARTMENT. GOVERNOR SADIKLAR SAID THAT GROUP, HEADED BY FINANCE MINISTER YILMAZ ERGENEKON, HAD COME BACK "GREATLY DISAPPOINTED". BUT, WHAT HE WOULD NOW SAY SHOULD BE UNDERSTOOD AS HIS OWN VIEWS AND NOT THOSE OF TURKISH GOVERNMENT; HE DID NOT WISH TO SPEAK FOR FINANCE MINISTER OR PRIME MINISTER.

2. "TURKEY IS IN A VERY DIFFICULT POSITION, LET ME ADMIT", SADIKLAR SAID. EXPORTS WERE FAR LOWER THAN ANTICIPATED IN FIRST QUARTER. ADDED TO THAT SITUATION, ATTITUDE OF TWO BIG AMERICAN BANKS IS MAKING IT HARD FOR TURKEY. THE TWO, WHICH HAD PROMISED TO SUPPORT NEW TURKISH CONVERTIBLE LIRA DEPOSIT (CLD) PROGRAM, AIMED AT MOVING STRUCTURE OF CLD'S FROM SHORT TO MEDIUM TERM, HAVE NOT DONE SO. FURTHER, THEY HAVE JUST WITHDRAWN \$200 MILLION IN BANKERS' FACILITIES WHICH THEY HAD MADE AVAILABLE FOR PAST THREE MONTHS. THIS SUM IS AMOUNT OF CENTRAL BANK OVERDRAFT THROUGHOUT WORLD. FOR LACK OF THIS CREDIT, MANY FOREIGN BANKS ARE NOT ACCEPTING CENTRAL BANK'S AUTHORIZATIONS TO PAY.

3. TIMING, SADIKLAR SAID, WAS CRITICAL ELEMENT IN PROBLEM. BANK HAS TO GET \$200 MILLION BEFORE ELECTIONS TO RESTORE CONFIDENCE AND PREVENT CALL-IN OF CLD'S UPON MATURITY. ONLY ABOUT \$50 MILLION IN CLD'S ARE COMING DUE BEFORE JUNE 5, BUT IF BANKS STARTED TO WITHDRAW THESE, PROCESS COULD BE HARD TO REVERSE. WITHOUT SUBSTANTIAL CLD'S TURKEY WOULD BE IN TOUGH PLIGHT.
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4. SADIKLAR SAID THAT SITUATION WAS DIFFICULT BUT TURKEY COULD OVERCOME IT IF THE COUNTRY COULD SELL ABROAD SOME OF ITS AGRICULTURAL STOCKS WORTH A POTENTIAL \$800 MILLION (2.5 MILLION TONS OF WHEAT, \$200 MILLION-WORTH OF TOBACCO, AND \$300-400 MILLION EACH IN COTTON YARN AND OLIVE OIL --EXAGGERATED DOLLAR FIGURES IN EMBASSY'S OPINION.) GOVERNMENT HAS ALMOST COMPLETED THESE DAYS SALE OF 500,000 TONS OF WHEAT TO NON-US BUYER AT \$90 A TON AND HAS AGREED TO SALE OF 15,000 TONS OF TOBACCO. PRICES BEING RECEIVED ARE NOT GOOD; TURKEY IS NOT IN ADVANTAGEOUS BARGAINING POSITION. GOVERNOR SAID THAT HE INTENDED TO INFORM THE TWO AMERICAN BANKS WHAT SALES, FORCED BY THEIR ACTION, HAD COST TURKEY IN EXPORT EARNINGS.

5. GOVERNOR SAID THAT HE TRIES TO THINK THAT TURNABOUT OF US BANKS HAS NOTHING TO DO WITH POLITICS. BUT HE SOMETIMES FEELS THAT USG, WHICH IMPOSED MILITARY EMBARGO ON TURKEY, IS NOW ALSO IMPOSING "ECONOMIC EMBARGO". RECALLING THAT HE HAD BEEN A STUDENT IN US AND HAD ALWAYS BEEN PRO-AMERICAN, GOVERNOR SAID THAT HE HOPES

HE IS WRONG. BUT HE JUST DOES NOT KNOW. SEVERAL OBSERVATIONS SUPPORT THIS VIEW. FIRST, AMERICAN BANKERS WITH WHOM HE AND FINANCE MINISTER TALKED ALL USED SIMILAR WORDING, AS THOUGH THEY WERE BEING ORCHESTRATED. THEY KNOW WELL THE ECONOMIC POTENTIAL OF TURKEY AND IMPOSSIBILITY OF GOVERNMENT TAKING EFFECTIVE ACTION IN MONTH BEFORE ELECTION. WHY ARE THEY MOVING NOW WHEN IT WILL BE EASY FOR TURKEY TO IMPROVE ITS SITUATION AFTER ELECTION? BOTH BANKS (HE DECLINED TO NAME THEM IN EVENT HIS SUSPICIONS WERE UNFOUNDED) HAVE KNOWN THAT TURKEY HAS PAYMENTS DELAYS AND THEY HAD ACCEPTED THIS FACT, SADIKLAR SAID. FACT THAT FINANCE MINISTER ERGENEKON COULD NOT GET APPOINTMENT TO MEET WITH TREASURY SECRETARY BLUMENTHAL IS ANOTHER CIRCUMSTANCE THAT FITS THE PATTERN. (REF A). (GOVERNOR ADMITTED THAT GOT HAD REQUESTED APPOINTMENT ONLY ONE DAY BEFORE MINISTER LEFT FOR WASHINGTON.)

6. SADIKLAR WAS PERSONALLY DISAPPOINTED AT WHAT THE TWO BANKS WERE TRYING TO SAY TO TURKEY. THEY HAVE HAD MILLIONSSOF DOLLARS
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IN BUSINESS FROM CENTRAL BANK AND HAVE MADE MUCH MONEY FROM TURKEY. FURTHER, THE TWO AMERICAN BANKS ARE GIVING AN UNHELPFUL SIGNAL TO FOREIGN BANKS. AFTER ELECTION, GOVERNOR SAID, HE WOULD REVIEW HIS POSITION WITH THE BANKS AND DIVERT TURKEY'S RESOURCES TO BANKS THAT HAD STOOD BY IT: WHEN TURKS FEEL THEY HAVE BEEN CHEATED, THEY REACT VERY STRONGLY.

7. SADIKLAR SAID THAT HE DID NOT CONFIDE ALL HIS IMPRESSIONS TO PRIME MINISTER AND FINANCE MINISTER FOR FEAR THEY WOULD BE "SOURD". HE HAS TRIED TO DIRECT THEIR SENTIMENTS TOWARD US, NOT AWAY FROM IT. BUT HE WAS DEEPLY CONCERNED THAT IF ACTIONS OF THESE TWO BANKS SHOULD CONTRIBUTE TO CENTRAL BANK CRISIS BEFORE ELECTION, RESULT MIGHT BE HARMFUL FOR US-TURKISH RELATIONS. US, HE ADDED, MIGHT EVEN BE BLAMED BY PRIME MINISTER DEMIREL'S JUSTICE PARTY FOR CRISIS. GOVERNOR REPEATED SEVERAL TIMES THAT HE THOUGHT SITUATION WAS "EXTREMELY DANGEROUS". WHEN TURKS ARE HURT, THEIR GOOD FEELINGS ARE NOT EASILY RESTORED, HE OPINED. NO MERE VERBAL ASSURANCE FROM US WOULD BE ENOUGH TO CONVINCE THEM OF US GOOD INTENTIONS. SOME FINANCIAL HELP --- HE SUGGESTED, WITHOUT FINISHING SENTENCE.

8. E/C COUNSELOR REPLIED CATEGORICALLY THAT SADIKLAR'S NOTING OF USG ECONOMIC EMBARGO OF TURKEY WAS UNFOUNDED. PRESIDENT CARTER HAS JUST ANNOUNCED HIS ENDORSEMENT OF DEFENSE COOPERATION AGREEMENT AND HIS INTENTION TO SEEK FROM CONGRESS \$175 MILLION IN FMS CREDITS FOR FY 1978 FOR TURKEY. INDEED, TURKISH PRESS HAD REPORTED THAT THESE STEPS HAD INCREASED CONFIDENCE IN TURKEY WITHIN BANKING COMMUNITY. IT WAS CERTAINLY NOT IN US INTERESTS TO CONTRIBUTE TO A WEAKENING OF THE TURKISH ECONOMY. EXPORT-IMPORT BANK, AN AGENCY OF THE USG, HAS BEEN ESPECIALLY ACTIVE IN TURKEY THIS YEAR TO DATE. IF BANKS TALKED ALIKE,

THEY PROBABLY TALKED TOGETHER ABOUT TURKEY'S PAYMENTS PROBLEMS,
WELL KNOWN IN FINANCIAL CIRCLES.

9. ASKED ABOUT POSSIBILITY OF GOLD SALES AND IMMEDIATE IMF
ASSISTANCE, GOVERNOR SAID THAT SALE OF GOLD RESERVES (WORTH
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OVER \$500 MILLION AT MARKET PRICES) WOULD BE POLITICALLY
DIFFICULT AT ANY TIME AND ESPECIALLY DIFFICULT BEFORE ELECTION.
IN MIDDLE EAST GOLD IS HIGHLY PRIZED STORE OF VALUE. GOVERNMENT'S
SALE OF GOLD WOULD BE REGARDED BY TURKS AS PARTING WITH
NATIONAL WEALTH. TURKEY HAS, HOWEVER, ENTERED UPON AN ACTIVE
DIALOGUE WITH IMF. AFTER ELECTIONS, TURKEY PLANS TO USE ALL
IMF FACILITIES AVAILABLE TO IT, INCLUDING NEW WITTEVEEN FACILITY.
FIRST AND SECOND TRANCHES TAKEN TOGETHER WILL YIELD TURKEY
\$100 MILLION. GOVERNOR BELIEVED THAT THESE DRAWINGS MIGHT
ATTRACT ANOTHER \$400 MILLION FROM COMMERCIAL BANKS.

10. COMMENT. EMBASSY IS CONCERNED THAT THERE WILL BE EFFORT HERE,
UNDER PRESSURE OF ELECTIONS, TO TRANSFER BLAME FOR TURKISH
FINANCIAL MISFORTUNES TO US. EMBASSY HAS PROVIDED GOVERNOR WITH
LIST OF PRELIMINARY COMMITMENTS BY EXIMBANK FOR LOANS AND GUAR-
ANTEES, TOTALLING OVER \$75 MILLION, SINCE JANUARY 1, 1977, TO DISPEL
NOTION OF US ECONOMIC FREEZE. AMBASSADOR WILL ALSO ATTEMPT TO GET
IN TOUCH WITH SADIKLAR TO DISABUSE HIM FURTHER OF THIS NOTION.
MACOMBER
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